MONTHLY REPORTS mid 2003-06 Monthly Reports mid 2003

USAID MOBIS CONTRACT No. GS-10F-0014K INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR MONTHLY STATUS REPORT

PA GOVERNMENT SERVICES, INC.

Activities

• In Banja Luka on 7 April, met with Minister of Energy Bogicevic and Messrs. Staka and Radovic from EP RS to discuss the RS Action Plan. The Minister reported that The RS Government has agreed to change the Privatization Law such that only 51% shareholding is needed for management control of the strategic companies instead of the existing 75%. This change permits potential strategic buyers to be able to control the companies with as little as 51% of shares. He also reported that as a result of the Bulldozer Committee, the RS will amend the law on privatization of the strategic assets so that these privatizations will be determined by the Government without going to the Parliament for approval. Also, the Government has agreed that a majority of the strategic assets can be sold, but has decided to wait until the above law has been passed to announce that because of the Parliament's previous action in its Conclusions last fall. By splitting the Action Plan into two parts, this can be addressed in Part II.

With regard to the Action Plan, Radovic, the lawyer from EP RS, said that there are two forms that the holding company that has been agreed to be formed for the generating companies can take according to the RS Law on Entities. One form is a capital holding company where the holding company has some shareholding; and the second form is a management contract between the parent company and the daughter companies. We agreed that this second form of holding company is what should be considered in the case under consideration. I told them that the Action Plan should consider consolidating the five discos into the three that are to be privatized according to the recommendation of the Study.

• In Banja Luka, met with Slavica Krunic to discuss what I had heard at the Ministry and other items of interest in the RS. He agreed with the definition of a holding company as a management contract that will manage the gencos until the Entity regulator is in place – with a lifetime of one-to-two yeas maximum, and certainly to end at or before privatization. He had misunderstood the recommendation of the Study on privatizing across Entity borders. He thought that we were trying to create a single company that would exist in the two Entities. When I explained that we were recommending privatizing two different companies (one in each Entity) to a single owner and not to create a single company, he was satisfied. He has a problem with our recommended combination for the discos, however. He is for creating a combination that would be the best for the RS if there were to

be no further combination with the Federation for privatization. I explained the reason for our recommendation, and we did not come to agreement.

- In a meeting with Lewis Healy, learned that EP HZHB is planning to construct a new 30 MW hydro plant on the Neretva south of Mostar. This is in addition to the one that is nearing completion this year. In a later conversation with Vedran Boras of EP HZHB, I was told that this will be financed by the World Bank. (??)
- In a meeting at EP BiH on 10 April with Merritt, attended by Enver Kreso, Boro Bjelobrk and Emir Aganovic, Aganovic gave a presentation of what the EP is doing towards restructuring and towards undertaking the reform recommendations of the Special Audit Committee. As usual, it was a slick presentation with a lot if information. He reported on a five-year contract to sell power to HZHB and the remaining two years of a contract to sell power to a large industrial. He made a plea for a State and Entities Steering Committee to coordinate the restructuring that should be formed immediately. Merritt told Kreso that the EP must cooperate with all of the reform and restructuring that is ongoing, and in particular should provide more cooperation with the financial work led by the EU consultants from ESBI.
- In a meeting at the Federation Ministry of Energy on 11 April, met with Minister Zigic and the newly appointed Federation Action Plan Working Group (Edin Zametica, Mile Srdanovic, Emir Aganovic and Vedran Boras). The Minister reported that the WG for the Coal Mines is composed of only people from the mines, and it is using the recent German Study as a guideline. He understands that this is a different approach from the Marston Study upon which our recommendations were based, but this was set in motion by the previous Minister and he has not felt that he could change it. When they finish their work, then their Mine Action Plan will have to be harmonized with the Electricity Action Plan during the next few months. The miners are causing problems now because of low salaries and lack of investments in the mines (miners in Zenica and Kakanj are striking today). The Ministry is also having to deal with changes in the gas sector that will worsen the position of the coal miners.

Boras reported that EP HZHB does not agree with the final form of the Federation Action Plan that was produced and approved under the previous Federation Government. He said that their EP doesn't think that this Plan will be in the best interest of the Croatian people, and that this situation as it is today under the existing EP should be maintained and all unbundling should occur within the EP. The acting General Director has sent a letter to the Minister stating these points.

With regard to reformulating the Federation Action Plan into a Part I covering only restructuring, the WG recommended that the RS Action Plan should not go to the RS NA until a Federation Government approved Plan could be harmonized with it.

 In a meeting in Banja Luka of 14 April, met with Minister of Energy Bogicevic and Messrs Cokorillo, Radovic and Staka of EP RS to work on the RS Action Plan.
 The Minister wants a final Plan to submit to the Government for approval by the end of this week. At my request, he agreed not to submit a Governmentapproved Plan to the NA until it is harmonized with that of the Federation. The EP RS team and I worked through the Plan to create a new draft to submit to the Government.

- On 15 April, Peter and I had a conference call with Iftikhar to discuss the schedule dates in the RS Action Plan. He was concerned that they are too optimistic and are unrealistic; He gave us his recommendations that moved the end of the transition out one year. I discovered later the reason for this delay is that Iftikhar has delayed the tendering for the loan to rehabilitate the high voltage transmission system by one year. Therefore, all activities related to a national market have to be delayed until this work is completed, now planned for the last quarter of 2004 instead of the original plan of last quarter of 2003. As a result, we will modify the schedules in both RS and Federation Action Plans to be consistent with this new date.
- During the next three meetings of the Federation Action Plan WG, on 24 and 28 April and 7 May, most of the time was taken with EP HZHB disagreeing with all efforts to produce a single Federation Action Plan. First, they offered their own action plan for EP HZHB that was essentially keeping things as they are under their EP. Then, when the Minister of Energy said there will only be a single Plan for the Federation, EP HZHB made other arguments to block any possible agreement with the rest of the members of the WG on a Federation Plan. As a result of this continued stalling and blocking, at the meeting on 7 May, the other members of the WG agreed on a draft Plan to be presented to the Minister of Energy on 12 May. The WG will recommend that the Ministry, and possibly the Government, approve this draft Plan within two weeks and then to be prepared to work with the RS to harmonize the two Action Plans.
- Attended the WB Mission Kick-off meeting with Iftikhar and the assembled faithful. There was the usual agenda with everyone making a report of their activities. My observations will be limited to what I consider highlights (or lowlights as the case may be).
 - Zdravko Milovanivic, Assistant RS Minister of Energy, reported that the RS and the EP RS are complying with the recommendations of the Special Audit Committee. The General Director, the other Directors and the Supervisory Board have been removed, and they are advertising for replacements.
 - Acting GD of EP RS Dakic reported that the EP is reviewing the financial and technical situations of the daughter companies; are taking appropriate measures on cash control; have terminated all investments in non-production facilities; and are reviewing contracts that have been made during the past several years.
 - Acting GD of EP HZHB Moric reported that the reason that delays in the formation of the STC is that the SC has been ineffective in resolving disagreements. He also said that the old Federation Action Plan should be re-written to consider the recommendations of EP HZHB. To date, their recommendations have been rejected.

- In a meeting with Iftikhar on 2 May, he said that in his discussion during the week he has told both Governments that three critical items must be completed by the end of June. These are: (1) Commissioners must be approved for all three regulatory commissions; (2) Both Entity Action Plans must be harmonized and approved; and (3) the ownership of the STC must be agreed. He also said that because of some issues that Zametica had mentioned in his meeting with the Minister, Iftikhar would attend the next meeting of the Federation Action Plan WG.
- Lewis Healy reported on his meeting with the EU people reviewing their projects.
 His contribution was that his present work will have no impact as long as the
 management of the EP's is linked to the political influence of the Governments.
 His recommendation to solve this is to bring in outside management for the top
 three or four management positions in the EP's (possibly less for EP BiH) to
 completely change the attitudes culture of the EP's. His recommendation sounds
 a lot like Plan B.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- Active plans of EP HZHB to construct a new hydro plant during the next three years.
- The continuing problems of corruption and non-compliance of the EP RS with reforms
- The reluctance of the IC to implement Plan B

Deliverables

- Part I of the Action Plan for the RS
- Draft of Part I of the Action Plan for the Federation incorporating new schedules

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Activities

• Met with the Federation Action Plan WG with Iftikhar Kahlil in attendance parttime. EP HZHB made another pitch to Iftikhar on modifying the Action Plan to keep all of their activities under the EP until privatization. They emphasized that they are in agreement with the final goal of the 2001 Study, but want to make some changes in the transition phase. They proposed that two holding companies be created, one for each Federation EP. Iftikhar stated that there should only be one Action Plan for the Federation, not two, and that the Federation Government must agree on the final plan.

After Iftikhar left, there was much discussion on the structure of the EP's during the transition period. Since the RS has a holding company for their gencos, EP BiH said that it would be good if the Federation would also have one. EP HZHB said that it would agree to two holding companies, but not one. It was pointed out that two holding companies would result in no changes during the transition phase, as opposed to the Plan approved last year which had the full unbundling done prior to corporatization. Since EP HZHB would not agree to a single holding company, it was decided to have no holding company.

- A conference call with the consultants from SEETEC, KEMA Pierce Atwood and PA Consulting was held to coordinate the work that all are performing for the power sector restructuring. Peter Czech, Daniel Dumas and Faruk (in person) from SEETEC, Christian Hewicker from KEMA, Lewis Healy from ESBI, Jane Wilson from Pierce Atwood and myself participated. The following items were identified as critical:
 - A critical item is the asset valuation for of the transmission assets. Daniel will arrive in a week to work with the Financial WG to try to reach agreement on having the valuations for EP BiH and EP RS up-dated on a consistent basis, and on having EP HZHB re-done on the same basis. All three are different now.
 - The assets of the ISO have not been identified. ZEKC should make a list of these assets
 - Lewis reiterated his thoughts that his advisors working as outside consultants are not going to get the job done properly. This can only be accomplished by replacing the existing management with outside experts who will operate from inside the company as full-time management. His

idea is that besides the General Manager, others that should be replaced include the commercial manager, the financial manager and the human resources manager (this last because the personnel are disorganized, dispirited and without any direction).

- Faruk said that the OHR Roundtable that was held last month was a public relations failure. Everything that was said in the Roundtable was very good and positive, but none of this was reported in the local media, and so an excellent chance was missed.
- Attended the World Bank Wrap-up Meeting held be Iftikhar. He announced that
 he has agreement from the three Governments to form a Restructuring
 Coordinating Committee, and that Reuf Hadzibegic was the State member, Edin
 Zametica and M. Sredanovic from the Federation Ministry of Energy, and Z.
 Milovanovic and B. Stanimirovic from the RS Ministry of Energy.

In discussing the two coal studies that have been performed for the Federation, Iftikhar said that the recent German study recommends rehabilitating the mines and reducing staff from 14.500 to 7500. The Marsdon study recommended reducing staff from 15,000 (at that time) to 3500. The large investment required to justify the employment of the 4,000 miners recommended in the German study require additional coal sales that are not supported.

• In a meeting with Edin Zametica of the Federation Ministry of Energy, he described how the Coordinating Committee is planning to work with the two Entities to harmonize the two Action Plans. Since the Committee didn't contain a Croat, it has added Z. Vukic from ZEKC, who will act as a State representative. The Committee will meet on 28 May to start to harmonize the two Action Plans, and I should plan to attend all of these meetings.

I reminded Edin that our Action Plans call for the formation of a Restructuring Steering Committee, and that while the Coordinating Committee will assist the SC, we still need the SC as a decision-making body. I recommended that the two Ministers of Energy from the Entities plus the State Minister of Foreign Trade and Economic Relations constitute this SC. He said that he would take it up with the Minister.

I questioned him on the review process in the Ministry for approving investments for new capital expenditures, since the investments for Pec Mlini had not been transparent, and in fact, had been withheld from PA Consulting when we requested all planned future investments for our Study. Now EP HZHB says they are planning to build another hydro plant, Mostarsko Blato. He suggested that I write a letter to the Minister requesting this information.

• Met with the Restructuring Coordinating Committee along with Cokorillo, head of the RS Action Plan WG to work on harmonizing the two Entity Action Plans (Zametica represented the Federation AP WG). Most of the discussion was on how the two Entity Laws on Companies differ, and making sure that we allow for any differences in our plans for corporatization. We discussed every item and proposed changes where necessary to harmonize the Plans, and agreed on the dates that had stretched out the schedule because of the World Bank's delayed schedule for rehabilitating the transmission system. It was agreed that I would redraft the Federation Plan, the RS would redraft the RS Plan, and I would make sure that they are in harmony before our next meeting on 3 June, at which time we plan to finalize the plans and send them to the respective Governments by the end on next week.

 Met with Emir Aganovic and Goren Milocevic of EP BiH to discuss the questions that arose in the Coordinating Meeting on the Laws on Companies. The discussion centered on the differences between a subsidiary as defined in the Federation Law on Companies and a holding company as defined in the RS Law on Enterprises. We worked out language that will satisfy both laws.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- Active plans of EP HZHB to construct a new hydro plant during the next three years.
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Deliverables

- Part I of the Action Plan for the RS
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Activities

- With USAID, the World Bank, the EU and Pierce Atwood, met with Don Hays at OHR to discuss the schedule for the Transco Law. USAID suggested that the IC accept the option presented by Iftikhar to delay the imposition of the IM for 160 days during the formation of the Transco. The EU expressed the concern that nothing could happen for 160 days. Hays said that OHR would not allow that much delay before they would step in. It was agreed that this modification would be made and the Law would be ready to submit to the Governments.
- Attended a meeting at USAID where the two Entity Prime Ministers were invited
 to sign an MoU on the formation of the Transco and the ISO. Besides the two
 PM's. MoE Zigic and his advisor Zametica attended from the Federation.
 Federation PM Hadzepazic objected to the two articles referring to the powers of
 the IM after formation of the companies, and so these two articles were deleted
 from the MoU. His objection was that the IM could decide to sell (or not) in spite
 of the wishes of the Entity. With this change, the PM's signed the MoU.
- With Amila, met with Federation MoE Zigic and his advisor Zametica to discuss several issues with regard to the Action Plan. On the matter of the objections that EP HZHB has made to the final Action Plan as submitted by the Working Group, Zigic said that he supports the version submitted by the WG because it is the result of two years effort by the WG and it was approved by the previous Government. He has forwarded the letter from Maric of EP HZHB to OHR and discussed the problem with Hays, and expects the support of OHR to support the Action Plan because it follows the recommendations of the 2001 Study.

Zigic supports my idea of a inter-Governmental Steering Board to oversee the activities of the Inter-Governmental Coordinating Committee, and agrees to serve as one of the members along with the RS MoE and the State Minister of Foreign Trade and Economic Relations. He will coordinate with these other two to get this Board created. To further support the Federation restructuring efforts, he is forming a separate section within the Ministry to focus on this.

 With Amila, met with the Inter-Governmental Coordinating Committee on the harmonization of the two Entity Action Plans. Most of the discussion was concerning the difference in the two Entity Laws on Enterprises (Companies) in the treatment of subsidiaries and holding companies. This results from the difference in the legal forms of the parent and daughter companies in the two Entities as well as the differences in the Laws. The EP RS already has a "holding company" of sorts, and plans to corporatize its daughter companies but not the EP headquarters. To create a legal holding company after corporatization, it will do so by way of a contract between the EP HQ and the daughter companies that will specify the details of the services that the HQ will perform for the daughter companies. The Federation doesn't plan to create a holding company, but to have the daughter companies as subsidiaries to the EP, all of which will be joint stock companies. This relationship between parent and daughter subsidiaries must also be defined by a contract that specifies the relationship and the services that the EP will perform for the daughter companies. Even though the form of these two relationships is similar, they serve the different functions required by the different legal forms and the different Laws.

The Federation asked why the RS Plan did not include a direct reference to the final form the companies would take upon privatization as the Federation Plan did. The RS stated that the Government has a political problem with making a direct reference to privatization in Part I of the Action Plan. However, the Plan does state that their plan is in harmony with the restructuring in the Federation, and is in agreement with the recommendations of the 2001 Study.

• With Merritt Broady, Jane Wilson and Amila, met with Acting GM Maric and his staff at EP HZHB in Mostar to discuss some problems that they have with the final form of the Federation Action Plan. They first stated that with HR Ashdown stating that privatization may not occur, so why restructure? Merging the two Federation EP's will damage the profitability of EP HZHB, as well as the entire Herzegovina region because the profits of the EP have benefited the region. Merritt pointed out that the State and the Entities had agreed as part of the Power III Program to unbundle the EP's now and to be prepared for privatization when the market returns for power assets.

Then they said that they agreed with the final form of restructuring as recommended in the 2001 Study, but that they suggested some changes in the transition phase that was not spelled out in detail in the Study. The recommended that Capljina HPP be included in the Neretva River Company and gave arguments why its flood control activities had to be coordinated with those of the Neretva River HPPs. However, power operation of Capljina is due to water from the Trebisnjica River, and only the outflow goes into the Neretva. They also argued that due to the illegal diversion of water from Capljina to Dubrovnik that Capljina was in danger of becoming an uneconomic plant and possibly a stranded asset, and that by grouping it with the Neretva HPPs its loses could be absorbed by these plants and it would not have to shut down.

It came out in discussion that what they are most concerned about is that when the Neretva River Company is formed, EP HZHB will be a minority contributor (even with the addition of Pec Mlini) and EP BiH will dictate the terms and conditions of the new company. By adding Capljina, they say the sides in the negotiations will be about balanced, and EP HZHB could argue that the HQ of the Company should be in Mostar instead of Jablanica. I responded that it is true that Capljina has a problem with low water flow, but that their recommended solution does nothing to resolve that, but does create other problems with our desire to create single companies on individual rivers and their tributaries. What

we should be addressing is a solution to the water flow problem to Capljina. Merritt suggested that it is reasonable for EP HZHB to argue that the HQ of the Neretva River Company should be in Mostar, and that the EP should prepare a position paper with their arguments and I should prepare one stating my recommendations to be finished by Friday.

With Merritt and Amila, met in Trebinje with EP RS acting GM Dakic, new Board member Ms. Unlovic and Dragan Andelic (the last two part time). The meeting was to receive a state of the reform process that has been requested as a result of the Independent Audit and to identify any new problems that may have been discovered. Dakic reported that his top priority items were low collections, illegal money flow and inappropriate management decisions, including the high expenditures at Gacko. He said that the audit team has discovered about 60 million KM in liabilities at Gacko and he believes that they will find more. He also said that the situation at Ugljevik is likely to be similar, and he plans to appoint a WG for this plant as well as for the HPPs. He also reported on the irregular tender for the repair work at Gacko that resulted in the "Russian" company being chosen over a lower bidder. Dakic has written a letter to the MoE requesting some guidance on this problem.

Andelic confirmed that Capljina was suffering because of lack of the water that it should be receiving because of a dispute between EP RS and EP HZHB. He also agreed that HEP was violating the 1983 agreement to take only 22% of the energy from Lake Bilece and is now taking much more. Also he said that no additional water flow should go to Dubrovnik. He said that he is not aware that Unit 3 at Dubrovnik has been finalized, but thinks it is still in the discussion stage.

- Met with Peter Flynn and Bob Archer, and Bob gave us a status report on the SEE regional work on market design and regulation.
- Met with Merritt, Peter and Bob Archer to hear about Merritt's trip to Belgrade. He heard that EFT has stated that even if EP RS tenders for the sale of electricity, EFT controls the Montenegro grid as well as the 400 kV line from Trebinje, so they will dictate the term and conditions of any sale. He said that he heard that the Piva HPP in Montenegro cannot run at full power because the water flow is lower than design. He has requested some data on this. The study of new hydro projects on the area rivers was done by Energoprojekt in Belgrade during socialist Yugoslavia and has not been re-done since.

Merritt requested that I perform an economic evaluation of all of the new projects that are being planned and/or constructed in BiH, and to also look into the environmental and technical considerations according to modern international standards that should be used to justify these in terms of least cost planning. He also requested that we develop a long-term mechanism for the review, approval and monitoring of any project before it receives a license to proceed.

 Met with Faruk Sendarevic of SEETEC to review their work on the interface of the Transco with the ISO, the gencos and the discos. He indicated that there is still friction between the Transco and the ISO because the technical interface has not been agreed. When the Laws are passed, this should be resolved. He discussed the progress on getting approval from the EP's on revaluation of the Transco assets, where the EP's have requested relief from the requirement to rebid the work.

- With Amila met with Federation MoE Zigic and his advisor Zametica to discuss the status of the Action Plan and several other issues. Zigic said that a meeting with the union was held to discuss the AP, and a meeting with the two EP GM's will be held in two days. Then the Plan will have to be discussed within the Government before it is approved by the Government. With regard to the Capljina problem, the Federation Government is working on this with the RS Government on the disputed between EP HZHB and EP RS. The dispute between BiH and Croatia is also being addressed by the State Ministry of Foreign Trade and Economic Relations with the support of an Expert Group. He agreed that BiH needs a PM Agreement on water usage to be implemented and monitored by a State Steering Committee. Zigic said that he had agreed that no tender would be required for the re0valuation of the assets of the Transco.
- Met with Emir Aganovic to discuss his detailed plans for the restructuring of EP BiH. He has issued a framework paper to all of the department managers and top management on the transition phase and is waiting for responses from them. He is concerned that they are not giving it the priority it deserves if we are to make out schedule.
- Met with Peter Czech and Faruk Sendarevic of SEETEC to discuss their work with the Transco Technical WG. SEETEC has submitted their report with recommendations on the organization of the Transco, which is to have a centralized organization with field operations for maintenance. Lasic of EP HZHB totally disagrees with this, and plans to continue to operate as he has in the past with a completely de-centralized Herzegovina office with all support functions. This is consistent with EP HZHB's reactions to all of the recommendations towards restructuring keep the status quo.

In response to Krajina Disco's request to retain all of the 110 kV lines in their area because they are called distribution lines, Peter did a detailed evaluation of the use of these lines. All but two of these lines are network lines (and one of the two is planned to be connected to become a network line), so their argument is not supportable. Based on this, we recommended that the Law not be changed so that all 110 kV lines go with the Transco.

- With Amila, met with Mirsad Fazlinovic of EP BiH, one of the experts on the
 original design of the hydro plants in Yugoslavia with the knowledge and data
 that was used in the old designs. He supplied some interesting views and
 insights into the present discussion of water usage in eastern BiH:
 - HEP was arguing even before the war that the energy split from Lake Bilece should be 75:25 instead of 78:22, but they never could make the case that they contributed 25% of the investments in Phase I of the Trebisnjica River Hydro Project.
 - Using water in Capljina is 20% less efficient than using it in Dubrovnik because of the fall and the long distance to Capljina.

- Montenegro is talking about building a tunnel to divert the water away from Dubrovnik to a new 200 MW HPP at Herceg Novi.
- Also, one of the problems in achieving agreement on Buk Bijela is that Montenegro has had plans to build a tunnel to divert the Tara River east to the Moraca River and to build six small hydros on the Moraca. This would decrease water flow to Buk Bijela by about a third.
- Visegrad is running at about 12% below its design because of lower than planned water flow.
- The two large HPPs on the Drina down-river from Visegrad, Bijana Basta and Zvornik, are on the border with BiH, yet all of the electricity goes to Serbia. The accumulation lake for Bijana Basta is in BiH, and is the largest accumulation lake in BiH. BiH made a request to Serbia ten years ago to agree on sharing electricity from these two plants, but there has been no agreement.
- Learned from Reuf Hadzebagic that no progress has been made on the dispute
 with Croatia on the water usage from Lake Bilece since the unsuccessful meeting
 of the two Expert Groups in Dubrovnik earlier in June. He was to write a letter to
 Hays at OHR describing the lack of any agreement. His Minister said that this
 subject should be discussed by the Inter-State Government Committee before it
 is taken to International Arbitration.
- With Merritt, Peter and Amila, met with Dragan Andelic of EPRS to give us an update of activity at Trebinje. The EP has changed the management at Gacko; the new GD has never worked for the EP. The Technical Director came from EPS. The major repair at Gacko that was scheduled to start in April has been delayed until next year, and minor repairs are scheduled to begin mid-July.

He reported that he has requested that the EP release the biological minimum of water flow to the Popovo Canal. They are forming a State Commission to determine what the biological minimum flow should be; there is a question whether it should be 6 or 8 m3/sec. They are also reviewing to see where the canal needs to be repaired. It is only capable of 30 m3/sec flow now compared to the 45 m3/sec for which it was designed. There was a meeting on 26 June between EP RS and EP HZHB to discuss a detailed proposal for sharing energy from Lake Bilece, and this will be discussed more in a future meeting.

Croatia abided by the original agreement on the split of energy from Lake Bilece 78:22 until 1994, and then arbitrarily increased their usage by disconnecting one of the generators at Dubrovnik from EP RS. Since that time Croatia has taken 3000 GWh of electricity more than the agreed 22%, an amount that EP RS values at 100 million KM.

There has been no resolution of the outstanding debt to Croatia for their one third investment in Gacko because HEP is not interested in taking expensive electricity from Gacko. Merritt suggested that this debt could be offset by the illegal electricity that had been taken from Lake Bilece.

One third of the accumulation for Lake Bilece is in Montenegro, and they have brought up the issue of payment in kind by electricity from the lake. It was proposed that BiH counter with the sharing of electricity from the two HPPs on the Drina, particularly Bijana Basta, whose accumulation lake is almost entirely in BiH

Andelic said that repair of the 400 kV line between Visegrad and Tuzla would resolve many difficult issues in the transfer of electricity from east to west. This line should be in operation before the coming winter. He will meet with EP BiH next week to attempt to expedite this and wondered if the IC could help. We told him that this is under the WB Power III schedule, and it has been delayed by one year, so probably would not be finished by this winter.

From 1 to 15 July EP RS will have 140 MW for sale and they have made this very public. EP HZHB is interested in purchasing all of it and has asked EP RS to set a price. EP RS has said that they must tender for this sale, but he is afraid that EFT will offer the best price. He requested our advice on how to proceed. We told him to make sure that it is open and transparent and can be supported by good documentation, and that there is no requirement for advanced payment.

 To extend our stay for another week through 18 July, requested from USAID that some ODC budget that will not be spent because of shared office, local apartment reduced office expenses and reduced number of trips be transferred to man hours for a no-cost extension of the project. USAID CTO obtained approval for this transfer from CO.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP
- The continuing problems of corruption and non-compliance of the EP RS with reforms
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bilece.
- The withholding of water by EP RS to meet the agreed biological minimum to Capljina HPP and the Popovo Field
- The reluctance of the IC to implement Plan B
- There is no contract in place for my return to continue the work on the implementation of the restructuring

Deliverables

- Harmonized Part I of the Action Plans for the Federation and the RS
- Recommendation on Resolving Problems at Captjina
- Recommendations to Entity Ministers of Energy to institute a mechanism for approval of technical, environmental and economic feasibility of new projects before they are given licenses to proceed
- Report on the Economic Evaluation of Proposed, Planned and Nearly Constructed Power Plant Projects in BiH

USAID MOBIS CONTRACT No. GS-10F-0014K INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR MONTHLY STATUS REPORT – JULY 2003 PA GOVERNMENT SERVICES, INC.

Activities

• With Amila, met at USAID with Merritt and Peter and Dakic, acting GD of EP RS. Dakic invited us to meet with the new Board of the EP, but they will not be meeting next week. Instead, invited us to meet with him and his new management team at Gacko next week. He reported that he has some problems with one of his new management team and some of the remaining department managers who are against reform. He is thinking about removing them, even though the new manager was supported by Mikerovic. He plans to inform the MoE tomorrow of this decision. Merritt recommended that he document all of his actions and the reasons for them, and send copies to USAID and OHR.

With regard to the tender for sales of excess electricity in August, he has decided to contract with ElektroBosna, the high bidder, because they have agreed to make advanced payments. In another contract with EP Montenegro, they are not paying even though they had given a guarantee, so he has stopped their supply.

The EP headquarters building that is under construction is not completed, and will require 1.8 million KM to complete. He plans to stop spending any further on this project and is working out payment schedules for debts that have been incurred. He is also working out payment schedules for the EP's creditors, which are mainly Government organizations. The Government is not supporting him when he threatens to disconnect non-payers. He has been receiving letters from the enterprises and phone calls from ministers telling not to disconnect.

Dakic has appointed a full-time committee to oversee the restructuring and has begun to restructure the headquarters in line with the Action Plan. He is concerned that there is not a permanent replacement for GC to see this process is completed on schedule.

Merritt gave Dakic praise for cooperating with EP HZHB on starting to resolve the water problem for Capljina. Merritt said that he has informed the U.S. Embassy of the critical importance of water in the region in terms of international relations as well as inter-Entity relations.

 The Federation Government approved the Federation Action Plan with no changes from the version submitted by the Ministry of Energy. However, none of the Croat ministers voted for it – they abstained. This indicates that there could be problems when the Plan gets to Parliament, and there needs to be a lobbying effort by the Embassy. With Amila, met with EP HZHB acting GD Maric and his staff in Mostar. They
reported on the meeting with EP RS on resolving the Capljina water problem. EP
RS is arguing that the biological minimum should be 6 m3/sec, not the 8 m3/sec
that was in the original agreement. EP RS made an offer that is unacceptable to
EP HZHB. In the meantime, water flow to Capljina has increased by about 50%
since the original letter. They provided us with a comprehensive study that they
have made on the subject.

They are very upset about the new contract that EP RS has made to supply electricity to ElektroBosna, because they have a debt of 20 million KM from EB, 3 million KM of which has be accumulated during the past two months. The EP has been fearful of disconnecting them in the past because of threats of the local mafia, but with this recent contract, they have disconnected them.

EP HZHB believes that some of its property at HPP Mostar was illegally taken from them and leased to the city of Mostar by EP BiH. They believe that this land should be returned to them before they allocate their assets during restructuring.

• With Amila, met with Minister Bogicevic in Banja Luka. In response to my questions about how new projects are to be reviewed and approved by the Government, Bogicevic said that all projects of EP RS have been approved by previous Governments, and he will continue to do so as we have recommended in our letter. For Buk Bejila, the tender has been put on-hold until a decision has been made on what to do. The Government will have to review all of the proposed projects again, and he is forming working groups to do this for every project. Fatnicko, however, is a different story because it is 60% completed and should go ahead.

On the subject of appointing a permanent GD for EP RS, he agrees that this should be done quickly. He thinks Dokic has done a good job, and hopes that this will be resolved by 10 July. Bogicevic said that he will support the GD totally in the choice of his new staff. For the actions taken at Gacko, he said that it should have been taken long before.

Bogicevic said that non-payments continue to be a problem because the courts will not support the EP in its action against non-payers. He said that he does not support any Governments ministry in requesting special treatment for either private or Government non-payers.

With Merritt Broady and Amila, met with Acting GD Dakic, Deputy GD Andelic
and several of the new management team of Gacko at the Gacko TPP. Merritt
mentioned the items relating to EP RS that were in the latest report of Special
Auditor. Dokic said that there were some items in the report that he had been
told had been done, and that he would have to re-examine based on the Report.

In discussing the operation of Gacko, one of the problems that has caused problems is the inability to measure the actual coal that is burned. They plan to remedy this by weighing the coal on the conveyors. The facility is in poor condition because of lack of proper maintenance during the past number of years. The main problems are the boiler problems and the feed water pump. Last year, because of the reliability problems, the cost of electricity from the

busbar was 11.5 pf/kWh. If they can get back to producing 1400 GWh, then the goal is to reduce this cost to 6 pf/kWh. They are creating a three phase action plan for Gacko:

Phase 1 – immediate repairs planned for 2003

Phase 2 - 100 day boiler repair starting March 2004

Phase 3 – Normal operation

• With Merritt and Amila, met with EP HZHB acting GM Maric and his staff in Mostar. Merritt reviewed the comments from the latest Special Auditor's Report One of the problems that was highlighted was the continuing non-payments. The EP stated that the water companies were the worst of the non-payers, with a debt of more than one million KM. They cannot disconnect water companies, and the courts will not rule against non-payers. In fact, judges are among those who don't pay.

With regard to the water dispute between Croatia and BiH, they said that a commission was formed between the two countries I 1991 which prepared international agreements on water, but that these were never signed.

- With Amila, met with Cokorilo, head of EP RS Restructuring. He said that the EP RS Restructuring Committee includes Andelic and Staka as well as himself. They will have detailed plans for restructuring by the end of July. He said that during 1992 94 the EP operated as independent units with the cash always retained by the daughter units. Then in 1995, political influence caused the headquarters to centralize operations and cash management.
- With Merritt and Amila, met with Minister of Energy Zigic. His response to the
 creation of a Federation Restructuring Committee is to disband the PIU and to
 create from it restructuring committees for electricity and the mines. He said that
 he plans to have a unified restructuring plan for the mines and electricity by July.

He said that the Ministry is not willing to negotiate the Action Plan with the Parliament. It is to be either accepted or rejected – not amended.

I requested that he look into the legal position of the Ministry on the ownership of the two Federation EPs in terms of rights of software owned by EP BiH that could also be owned by EP HZHB. This could be important in the use of the EP BiH software in EP HZHB without paying an additional licensing fee.

On the issue of the regulation of water, Zigic said that within the Federation three ministries have some regulation of water – Ministry of Environment and Urban Planning, Ministry of Agriculture and Ministry of Energy, Industry and Mines. All three are in favor of having the State Government coordinate all water issues.

Regarding the dispute over property between the HPPs of the Neretva River that was tabled by EP HZHB, Zigic said that it was not as issue because the Ministry owns all of this property and in restructuring and forming the new joint stock companies, it would be the Ministry that would continue to own all assets. The

only argument that the EPs could make was for political reasons, and that is something that he is not willing to consider.

Met with Emir Aganovic to obtain some information on the past and present plans for hydro plants in the Federation. He provided information on the Ustikolina HPP upstream of Visegrad on the Drina, three hydros on the Neretva upstream of Konjic and one on the Bosna River. The Austrians have expressed interests in two of the most promising looking candidates – Ustikolina and Vradak (on the Neretval River). He also mentioned the River Buna as a potential candidate, It is a strong river that comes out of a cave, and probably originates underground in eastern Herzegovina, and could thus cause some of the same kinds of problems as are being surfaced by the Fatnicko Tunnel.

Discussed the financial, accounting and billing systems software with Emir. He said that the planning model and the financial statements for each business unit are a new model and are not yet de-bugged. The specifications for the new financial system are not yet completed. All of the financial and management information systems that EP BiH uses have been developed in-house and there is no license fee associated with using them in the other EPs. Only the billing and collections system was developed outside the company, and would have a license charge for another user. That is not to say that it would apply to EP HZHB if it is determined that the Ministry is the single owner of both EPs.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP
- The continuing problems of corruption and non-compliance of the EP RS with reforms
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bilece.
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field
- The reluctance of the IC to implement Plan B
- There is no contract in place for my return to continue the work on the implementation of the restructuring

Deliverables

- Recommendation on Resolving Problems at Capljina
- Recommendations to Entity Ministers of Energy to institute a mechanism for approval of technical, environmental and economic feasibility of new projects before they are given licenses to proceed
- Report on the Water Problems that affect the building of new hydro plants in the region and within BiH, and an evaluation of some of the projects that are being considered.

Title: Assist to the Elektroprivredas in Implementation of the Action Plan

Monthly Status Report: August 2003

From: Amila Ibricevic

Main Items:

· Republic of Srpska

- 1. Action Plan for Restructuring and Privatization of Energy Sector in BiH, Part I – Restructuring for Republic of Srpska (further RS Action Plan) on July 30th 2003 has been approved by the RS National Assembly. Final Decree published by the RS National Assembly issued on July 30th 2003 authorized the publication of the RS Action Plan in the RS Official Gazette. The information that has been communicated to us by the RS officials indicates that the RS Action Plan is not published yet. All in all passage of the RS Action Plan is an important achievement particularly considering the fact that; strong opposition to it was presented by the RS representatives during National Assembly sessions. SNSD (Union of Independent Social-Democrats) presented very strong opposition and addressed it in few amendments. Proposed amendments which were supported by other currently in opposition parties were forwarded to the USAID office for review and further recommendations. Since these amendments mainly pertained to deletion of all references to privatization in the RS Action Plan they were strongly rejected by the International Community. After a long battle in the RS National Assembly itself, the RS Action Plan was barely passed. SNSD also made a request based on a claim that proposed RS Action Plan is a threat to National interests to People's Council (a body which does not appear on any political charts yet it has an apparent authority to rule against decisions voted by the Parliament) to annul "passed" RS Action Plan, but fortunately their request was rejected. Approved RS Action plan which is currently in procedure to be published in the RS Official Gazette contains minor changes (deadlines designated to month of July of 2003 are moved to month of August of 2003, since the plan itself was only approved by the end of July 2003) that are agreeable for the International Community.
- Recommendations for the changes in the RS Privatization Law made by the Bulldozer Committee (OHR) have not been fully adopted by the RS People's Assembly according to the latest copy of the Law that we have available. One of the particular changes that is important for this part of reform in BiH is proposed

amendment that gives RS Government authority over privatization issues. When we come to the development of Part II of the Action Plan, *Privatization* it would beneficial if only Government has authorities over privatization as opposed to Government and the RS National Assembly. Possibilities to push for this change in the RS Privatization Law through OHR would be of importance for future development of Energy reform efforts.

Federation of Bosnia and Herzegovina

- 1. Action Plan for Restructuring and Privatization of Energy Sector in BiH Part I - Restructuring for the Federation of Bosnia and Herzegovina (further FBiH Action Plan) is still waiting to be approved by the FBiH Parliament, House of Representatives. Federation House of Representatives session is scheduled for September 02 2003 and the FBiH Action Plan is item No. 7. on the Agenda. Favorable fact concerning the approval of FBiH Action Plan is that only needs to be approved by House of Representatives as it is regulated by FBiH Law on Electricity. Since the approval of this plan has been delayed this requires that certain deadlines listed in the FBiH Action Plan be changed since some have already passed. Also, it would be important to remember that the same plan was barely passed by the FBiH Government due to strong opposition to it by majority party HDZ. It is anticipated that FBiH Action Plan will not have an easy passage through the Parliament therefore certain prior lobbying efforts might be useful.
- 2. In recent issue of daily newspaper "Bosnia Daily" was reported that FBiH Government (Prime Minister Hadzipasic) engaged in negotiations over construction of 40 mini power plants. Considering the fact that "Bosnia Daily" was not exhaustive in their reporting this matter was further investigated. FBiH Law rules that development of mini power plants generating on renewable resources up to 5 MGW are under jurisdictions of Cantonal Governments. It is possible that Kuwaiti government expressed only an interest in reviewing options in hope to undertake these efforts yet they are still far from even developing feasibility studies for these potential plants. It is known that numbers of studies are produced by Cantonal Government and some demonstrate very promising projects. Currently 3 small HPPs are being constructed in town of Fojnica based on issued concessions by Cantonal Governments. Mr. Emir Aganovic from EP BiH claims that these projects show potential for small generation and hopefully sometime in the future will be undertaken in capacity that can be profitable, especially when we talk about generation by renewable resources.

Elektroprivreda BiH (EP BiH)

- 1. Mr. Emir Aganovic informed me that Detailed Action Plan for Restructuring and Privatization of Energy Sector in BiH Part-I Restructuring (further EP BiH Action Plan) that each EP has to produce following recommendations provided in the general FBiH Action Plan for EP BiH is well underway. I have not been able to obtain a copy of this detailed plan since the general FBiH Action Plan has not been approved by the House of Representatives and so made official. The fact that EP BIH Action Plan has not been submitted to our review is not of concern since it is know that EP BiH has made significant progress in this direction and more importantly it is technically well staffed in order to carry out this sort of reform.
- 2. EP BiH, with recent decision issued by the FBiH Ministry for Energy, Mining and Industry (further FBiH Ministry), which was later revoked, had a new Management board appointed. This Decree ruled that all industries that are under authority of this Ministry had to have a new Management boards appointed, except Management board of EP HZ HB since their Board was recently appointed as a result of Special Auditor's Report. After new Board members were selected there were initiatives that claimed that this Decree had no legal basis and as a result the Decree was revoked. Old Management for EP BIH is back in place but legal battles continue. These changes in terms of dismissal and appointment/reappointment of old/new Management board(s) are not favorable for operation of EP BIH so it would be useful for this matter to be resolved as soon as possible.

Elektroprivreda Republic of Srpska (EP RS)

- 1. Detailed Action Plan for Restructuring and Privatization of Energy Sector in BiH Part I Restructuring for EP RS (further EP RS Action Plan) was delivered to us for review. This plan has not been reviewed and commented on by Mr. Douglas Miller since it is still being translated. An important segment to this issue is that new Management Board of EP RS has approved a proposal to create a special unit within EP RS Headquarters that would only deal with restructuring and privatization efforts. This unit is composed of people with whom we worked in the past which will be beneficial for our future work with EP RS.
- In order to maintain good and transparent way of operating EP RS addressed us to review and provide comments on the proposal that was sent to them by Croatian Elektroprivreda (HEP). HEP originally made an agreement with Bulgaria to purchase electricity from them

and in order to complete this deal they needed an approval from EP RS to allow transit of electricity through Bosnia and Herzegovina. This deal would also involve TPP Uglievik to be moved and operate in I UCTE zone as opposed to II UCTE zone while TPP Gacko is in repair (Aug. 25th 2003 – Sept. 23rd 2003). For this arrangement HEP offered to pay EP RS 1.5 Euros/MWh/h which would total in 108 000 Euros in profit for EP RS by the end of agreed arrangement. EP RS requested approval from ZEKC. RS Ministry for Energy and Industry, RS Ministry for Finance, EP Serbia (some they have obtained). Since USAID was given very short time period to evaluate this proposal, it was not in position to approve with remark that it will hold EP RS responsible if they proceed with this arrangement and something goes wrong. Being that USAID did not approve this arrangement, EP RS requested a meeting with ZEKC in order to resolve this issue given that HEP is an important partner in the region and they need some advice on whether to accept their proposal. Meeting took place in ZEKC on Aug. 18th 2003 at 11AM where main concluding remark was: This arrangement is technically possible to carry out but this deal does not only involve EP RS; instead entire BIH Energy system which makes it a subject for ZEKC's regulation. Considering that this was transferred to ZEKC's jurisdiction they wrote a letter to HEP informing them about the outcome and stating their terms of contract. Each EP after it was requested to do so by ZEKC submitted their written agreements to proceed with arrangement. HEP still did not answer to ZEKC to provide them with final answer regarding this transaction. This entire proceeding is extremely beneficial due to couple of reasons. First, ZEKC assumed the position that it should have assumed a long time ago, meaning that it exercised their authorities and represented interests of all involved parties. Further, idea of bilateral contract between EP RS and HEP was avoided, in other words, the possibility of money mishandling was prevented. If HEP decides to agree with ZEKC's terms of use there would be no money involved instead favor will be returned in energy.

3. EP RS upon my request sent us documentation that they have available in regard to their new projects. This documentation consists of: Feasibility Study on Expanding the Production Capacity of Stanari Lignite Mine, Feasibility Study for HPP Dabar from 1996, Feasibility Study for Construction of Banja Luka Combined Heat and Power Plant, Revision of Proposed Project for HPP Banja Luka (small) 2 x 75 m3/sec. In addition we have also sent in a request for additional documentation mentioned in the Water study produced by Mr. Mato Uljarevic from EP RS that was forwarded to us by someone at the Special Auditor's Office, but we are still waiting for this documentation to arrive.

• Elektroprivreda Croatian Community Herceg Bosna (EP HZ HB)

- 1. Detailed Action Plan for Restructuring and Privatization of Energy Sector in BiH Part I Restructuring for EP HZ HB (further EP HZ HB Action Plan) was not submitted to us. Even though I have made several attempts to obtain a copy of this plan I was told that it is difficult to produce such detailed plan since the FBIH Action Plan has not been approved yet. It is evident that EP HZ HB is still hoping that FBiH House of Representatives will not approve the plan which if nothing else will buy some more time.
- 2. FBIH Government recently has issued a Decree which is not allowed for circulation that allows further construction of HPP Mostarsko Blato if these two conditions are met: 1. Development of Hydro-Geological Study which will show environmental impacts by the development of this plant. This study will also be subject to revision by a credible institution, 2. Find a Strategic Investor who will participate in the investment up to 33 %. It is evident that this is in direct collision with recommendations made in the Action Plan. Further, Special Auditor's Report elaborates Mostarsko Blato project and it recommends that this project be abandoned altogether. This matter needs to be followed up with FBiH Minister for Energy, Mining and Industry Mr. Zigic.
- 3. In the previous meeting held with representatives of EP HZ HB, we were informed that they are in the process of preparing a tender for purchase of software system (for invoicing/billing/ collection) according to specifications provided by EC consultants (ESBI and Corporate Solutions). Recommendations were made against these efforts for well known reasons yet EP HZ HB proceeds with their preparation. They have a meeting scheduled for September 9th 2003 when they will review final proposal what would allow them to go ahead with issuance of the same. OHR needs to provide an approval for this activity and they claim that they have not given one to EP HZ HB. In my conversations with Mr. Vlado Maric (Acting General Director of EP HZ HB) it is apparent that he is under different impression, in fact he claimed that they have necessary approvals by OHR which will allow them to continue as planned. Evidently, this is an issue that needs to be further discussed with OHR and the EP HZ HB in order to prevent issuance of this tender.
- 4. We have obtained all documentation on planned projects that is available and it already has been reviewed and evaluated. In addition to this documentation this is a list of projects that might be considered in greater detail in the near future (for these projects there is no documentation available): 1. HPP Mostar II, 2. HPP Pocitelj /River Buna, 3. Expansion of Jajce II to HPP Ugar, 4. HPP Livno.

Goals:

- Approval of FBiH Action Plan for Restructuring and Privatization of Energy Sector in BiH – Part – I Restructuring
- Work with OHR to secure passage of proposed amendments by the Bulldozer Committee in the RS Privatization Law
- Prevention of issuance of tender for software system (invoicing / billing / collection) purchase by EP HZ HB.
- Find possible ways to cancel a Decree proclaimed by the FBiH Government which authorizes further construction of HPP Mostarsko Blato
- Continue to work with EPs on further development of their individual detailed Action Plans.

USAID MOBIS CONTRACT No. GS-10F-0014K INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR MONTHLY STATUS REPORT – SEPTEMBER 2003 PA GOVERNMENT SERVICES, INC.

Activities

- With Jane and Amila, met at MOFTER with Reuf Hadzibegic, Edin Zametica and Zdravko Milovanovic, part of the Coordinating Committee. Zametica gave an update from the Federation:
 - The House of Representatives approved the Federation Action Plan on 16 September, with the provision that the schedules dates be updated to the current situation. These new dates must then be harmonized with the RS Action Plan;
 - Mr. Basic, former advisor to the MoE on mining is no longer in that position and is now an advisor to EP BiH; Assistant Minister for Mining, Sokolovic now has responsibility for the Draft Action Plan for coalmines. This plan should be available in one month to be harmonized with the Electricity Action Plan.

Milovanovic gave an update from the RS on the following issues:

- The RS Government has appointed members of the Steering Committee to oversee the implementation of the Action Plan;
- The RS Government has approved the final drafts of the Laws on formation of the Transco and the ISO;
- The RS Government has instituted all 13 items that are the responsibility of the Government in the Action Plan:
- The RS Government has appointed a Working Group for tariff reform that includes the EP, the EP Union, the Chamber of Commerce, the Ministries and large and small customers, and a WG for privatization both of these WGs report to the MoE;
- The MoE has decided to have a member of the Union on all of its WGs;
- The detailed Action Plan has been prepared by EP RS and has been approved by the Management Board;
- The latest management reports from the EP are not in line with the report from the Special Auditor;

- The MoE believes that the restructuring that will result from the implementation of the Action Plan will significantly help in improving the operation of the EP;
- The Government is looking into the non-payments from budget organizations so that no further debts will be incurred and the existing debts will be scheduled for payment – these debts increased by 4.5 million KM during the first nine months of 2003;
- The Ministers of Justice and Internal Affairs have been tasked with solving the problem of theft of electricity;
- There is a problem in revaluing he assets because the Federation has not adopted IAS, not has EP HZHB agreed to proceed;

Hadzibegic stated that he has received comments from the EPs on the two Laws that must be resolved before he will submit them to the Council of Ministers.

 With Merritt, Maureen Glazier and Amila, met with the leadership of the HDZ along with top management of EP HZHB and a Union representative. They stated that the EP has concerns about the passage of the Action Plan, that it was done in a manner that was unconstitutional because of Article 85 of the Electricity Law, and they plan legal action in the Constitutional Court.

Then General Manager Maric and his staff spent more than two hours arguing that their disagreements with the Action Plan had not been considered, that they could get no audience with the MoE, and that is the reason for this meeting – to present their reasons for disagreeing with the AP. All of their arguments are old ones that have been heard many times, supported by untruths, misstatements and the general position that the territory of Herzegovina should be a third entity and that EP HZHB should not restructure but remain as a vertically integrated company as it is now. They were not interested in listening to any of the arguments that have been accepted by the other two EPs for restructuring.

• Met with Emir Aganovic of EP BiH to discuss status of the restructuring in his EP. He expressed several concerns with his work on implementing the Action Plan. First, he said that the operations of the Special Auditors have become so time consuming that it is distracting his efforts towards restructuring, as well as other members of management. The latest tactic of the SA is to send their staff to the EP to all levels of the organization, not to respond to a particular problem, but to ask employees where there were problems of wrongdoing and what these problems are.

The second problem that he sees is in the coalmine reform program that is being developed by the MoE. Each mine has been instructed to develop its own plan for rehabilitation of its mine, and he doesn't see any attempt to coordinate these into a single reform plan that can be consistent with the Action Plan for electricity. This is in line with concerns about the recent German study on rehabilitation of the mines that is in contrast to the previous study by Marsdon on restructuring the mines to eliminate those with high cost.

He then discussed the Decree from the MoE on reducing operating costs in the EP (which also included all strategic public companies). This has been interpreted by the unions, and thereby by the media, as an across-the-board cut in salaries by 10%, and the unions threatened to strike. In fact, it was only instituted on 30 top managers, as the represented employees are covered by an agreement. The Special Auditor sent the EP a letter saying that the EP should ignore this Decree because it is illegal. EP BiH was the only strategic company that has objected to this Decree, and this has caused a problem between the EP and the MoE.

In discussing the software system for billing, EP BiH spent five years implementing their system. EP HZHB says they are ready to tender for a new system, and that EP BiH will be permitted to bid. If they decide to choose a different system, which in all likelihood they will, it could be many years before we have a compatible system within BiH. Both EP HZHB and EP RS have an obligation to send all tenders to OHR for review, so there is some way to track these.

- Met at the World Bank with the Donors and Don Hayes of OHR to discuss any
 disagreements with the latest drafts of the Transco and ISO Laws. It was
 agreed to insert the language on recourse and joint liability that EBRD requested.
 Two issues that Kahlil requested were agreed: (1) the first line of dispute
 resolution of assets would be changed from SERC to the MoEs; and (2) in
 Clause 51, give the extraordinary powers of the IM during formation to the
 Management Board as well.
- With Jane, met with M. Cokorilo, proposed Regulator for the RS Regulatory Commission, to discuss the tariff reform plan in the Action Plan, as compared to the item for developing new tariff methodology. We clarified the difference in that the former is for a reform of existing tariffs prior to the new regulatory commissions coming into existence, while the latter is the development of tariff methodology by the new regulators. There was discussion about how this new methodology would be developed, with Cokorilo taking the position that it should be done cooperatively between the regulators and the experts from the EPs, with input from all of the interested parties (union, large and small customers, etc.). Jane took the position that this is the responsibility of the regulators only, and then it would be presented in a public hearing at which interested parties would have a chance to comment. My comment on this procedure was that the development of the methodology would be the primary responsibility of the regulator, who would work with the experts from the EPs during the development, and then both parties would work with the users and other interested parties to help them understand it.
- Met at the Canadian Embassy with the Donors and their consultants to discuss coordination of the TA under the electricity reform work. Peter Paprosky, coordinator of CIDA, who just joined the Canadian Embassy, was introduced to the work and to the different actors. Neither the EC nor DFID were present at the meeting, but Christian Hewicker of KEMA was there. SEETEC, EBRD USAID, Pierce Atwood and PA Consulting were there along with Lejla Uzicanin of OHR. The meeting last week in Brussels was discussed, when the IC agreed that EC should take a larger leadership role, and it was agreed that would be good.

However, the absence of Mark Priestly from this meeting is indicative of the problem that we have on site with lack of EC participation. Now that the ESBI contract is coming to a close, it seems doubtful whether we will have more participation in country.

Aygen Yayikoglu of EBRD reported on the status of the tender for the SCADA System. He said that in a meeting on 23 September EBRD had presented to ZEKC and the three PIUs an ultimatum on the conditions for the loan. These are:

- 1) The design of the SCADA must be in agreement with the new Laws;
- 2) The design must be current to the restructured sector; and
- 3) There must be a consensus between the EPs and ZEKC on the System design.

EBRD's consultant Electrotek proposed their design of a central system controlled from the ISO, but the EPs and ZEKC cannot agree. Two of the EPs (EP RS and EP HZHB) want three independent systems and EBRD will not accept this design. EBRD also stated that they will not be prepared to tender until the future ISO headquarters has been decided.

The participants of the meeting drew up a list of items that need to be completed to form the two companies, and which of these items do not now have sponsors.

- With Merritt, Jane and Elma, met with Enver Kreso and some of his staff to discuss the comments that EP BiH has submitted on the latest draft of the Laws. There were three sets of comments, on the cutoff points between Transco and the gencos, ownership and some corporate issues. Most of the time was spent on the technical issues associated with the cutoff point. The position taken by the consultant that is in the Law is contrary to the practice in EP BiH. However, in the end, it was agreed that it could be done either way, and that this would not be a stumbling block on moving ahead. The ownership issue is not one that can be discussed because the World Bank made that decision unequivocal. The corporate issues were not discussed in detail because many had previously been discussed. The eight plus pages of comments were a result of a request from the MoE and were not intended for wide circulation. Kreso said that even though their ideas may be somewhat different from those adopted, they will comply 100% with the Law that is passed.
- With Amila, met with Dragan Andelic of EP RS in the PA office. His primary purpose in requesting the meeting was to inform me prior to official release of the information that he has resigned his position of Deputy General Director for Technical Activities at EP RS. He said that he cannot change the things that should be changed, and is uncomfortable in remaining in that position any longer. He is going back to the hydro plants where he spent many years. He will be working with the WG on water distribution from the Trebisnjica River, and requests that I also attend these meetings to assist the WG. He will retain his role as a Director of ZEKC. He fully supports the ZEKC position that the SCADA should be a centralized system, as does Cokorilo, another Director. He said that

he was actively involved in obtaining Management Board approval for the Detailed Action Plan, and this was a difficult job. He requested that I visit Trebinje soon to become involved with the EP in implementing the Action Plan.

- With Merritt and Amila, met with Minister of Energy, Mine and Industry Zigic and his advisor, Zametica. Zigic said that the Special Auditors have issued a letter that the MoE has no authority to even call a meeting of the Management Board of the EPs, and since then the Minister's influence of the EPs has been zero. He said that both EPs are objecting to the Action Plan. EP HZHB's actions are obvious; EP BiH is more subtle in focusing its displeasure through the unions. He can use the leverage of the mines against EP BiH, but he has no such leverage against EP HZHB. HDZ is trying to cause a crisis in the Government. He believes that if they can keep the Government together and implement the restructuring, the power of the nationalist parties will be weakened because their economic strength comes from the EPs. He requested that I work with Aganovic on a private basis to reschedule the dates of the Action Plan as required by the HoR, and then he will send them out to the two EPs officially.
- With Amila, met with Lewis Healy of ESBI who is winding down his work with the EPs on developing functional specifications for new accounting and billing systems. He says that EP HZHB wants to tender for the billing software and is determined to have their own system. This process needs to be watched carefully. He thinks this system should cost about \$1.25 million. EP RS has done nothing towards tendering for this system.

I mentioned my concern with the Decree that permits the privatization of Mostarsko Blato without a credible economic evaluation or a top-level study of the water problems of the entire area. He said that he is promoting a State-wide study of the water situation in BiH as well as its relation to other countries of the region. He is hoping to bring together as expert group from the region to study this. He requested that we develop a concept paper for him on this subject.

The functional specs for the accounting system that the WB will purchase are for the three EPs with modules for the daughter companies.

• RS PM Mikerovic requested that the IC respond to the recommendation by the Government to go ahead with the Faticko Tunnel Project as contained in a new report. This was sent to PA for USAID, and to EBRD, the EC and OHR. I prepared a draft letter for USAID to respond to this request, saying that the two large concerns that we have with this project, that have not been answered in the present report, which is just a restatement of previous studies that were performed several years ago. These two concerns are: (1) that the diversion of water from the Neretva River System to the Trebisnjica River System that this project entails is a problem that has not been addressed; and (2) there has been no accurate economic justification for this project as perceived.

This letter was sent to the PM's office on 2 October as requested.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP
- The continuing problems of corruption and non-compliance of the EP RS with reforms
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bilece.
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field
- The reluctance of the IC to implement Plan B

Deliverables

- Draft Letter to PM Mikerovic on Fatnicko Tunnel Project
- Revised schedules for the Federation Action Plan as required by the House of Representatives

USAID MOBIS CONTRACT No. GS-10F-0014K INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR MONTHLY STATUS REPORT – OCTOBER 2003 PA GOVERNMENT SERVICES, INC.

Activities

- With Amila, met IN Trebinje with Mrs. Cokorilo and Radovic of EP RS to discuss harmonization of the dates of the RS Action Plan with those that the Federation has adapted according to the instructions from the House of Representatives in their approval of the Federation Action Plan. All dates were agreed and the following additional items were discussed:
 - Mr. Cokorilo, who has been a member of the ZEKC Management Board reported that the only thing outstanding on the design of the SCADA system is how the Transco receives the data it needs for maintenance. On obtaining a HQ for the ISO, which is a requirement for issuing the tender for the SCADA system, ZEKC has advertised and received six offers. The Finance Directors from the three EPs were requested to respond. EP BiH has offered its new HQ building, but this has been considered a conflict of interest.
 - EP RS is not aware that they will have to provide interim funding for any of the regulatory commissions.
 - Article 7 of the Privatization Law was passed by the RS NA last month including the Bulldozer Committee recommendations, and Article 116 of the RS Electricity Law is being changed to correspond. This means that the RS NA will not have to approve the changes that are being proposed to the Action Plan.
 - In 15 days the specs will be ready for the World Bank tender for the accounting software, and 4 October looks like a reasonable date for implementation. No date has been set for the tender for billing system software.
 - EP RS has developed a plan of redundancies over the three-year transition period prior to privatization.
- To follow-up on the background for the introduction of International Accounting Standards into the Federation, I contacted Liam Coughlan of the USAID Private Sector Accounting Reform Project. They have written a new State Law on Accounting and Auditing that requires the introduction of IAS by the end of 2003 throughout the BiH. As well as all of the requirements of IAS, it also contains all of the requirements of the EU. It has just been approved by the BiH COM and is

ready to go to Parliament, where it has no significant opposition. The only opposition is the Federation Accounting Board, which will lose its monopoly oversight of accounting, but they don't have any political support. This is good news for all accounting coordination in the restructuring of the electricity sector.

- With Peter and Amila, met in Banja Luka with Mr. Bogecevic, MoE along with his Deputy Milovanovic and Mr. Radovic of EP RS. Peter told of the meeting that Merritt had proposed with GD Dakic, and Bogegevic said that he agreed and that he and Mikerovic would agree on a place and time for this meeting. We agreed that we should have a very frank discussion of issues. Bogecevic said that the approval of the Regulatory Commissioners is on the agenda at RS NA this week and he expects that they will be approved. He said that the RS Government had recommended that the HQ of the Regulatory Commission be moved to Banja Luka but that the RS NA would not approve. The Government even offered an alternative of creating offices in three cities, but that was also rejected. [This was also rejected by the USAID and it advisors.] Bogecevic said that the Government has appointed a Working Group on Privatization to begin to discuss this subject so that they will be ready to produce Part II of the Action Plan next spring.
- With Amila, met with Merritt, Peter and Mr. Dakic, GD of EP RS at his request. He had several complaints about the support that he was (or was not) receiving from the Government. These ranged from decisions on personnel to support of collections and disconnection policy to enforce payments. USAID also has some complaints that need to be discussed, including the Special Auditors Report, contracts with EFT and the ongoing and planned investment programs of the EP. Merritt suggested that he request a meeting of USAID and the GD with the Minister of Energy and the Prime Minister for a full day away from our offices to discuss these issues and to come up with a plan to resolve them. He suggested a date of 21 or 22 October, after he returns from being away for a week. In the meantime, I will work with Dakic to develop an agenda for this meeting.
- With Merritt and Peter, Colleen and Biljana from the Embassy, Lejla from OHR and Amila, met with Federation President Lozancic (HDZ) to discuss the restructuring of the electricity sector. He lives near Kakanj TPP and expressed his concern for the TPPs and the corresponding coalmines, and how they would fare in the reorganization and planned privatization. He didn't give the usual HDZ rhetoric, but did say that he was concerned with the planned redundancies that will be caused by restructuring.
- With Jane, Amila and Elma, met with Minister Doko and Reuf of MOFTER to discuss the two Laws that are set to go to the COM. We discussed the issue on the cutoff between the Transco and the gencos in some detail, and Mr. Doko obtained a good understanding of the disagreement that exists in the EPs. He suggested that we have a follow-up meeting with the Ministers of Energy and the three EP GDs to try to get a final resolution to this matter, as well as any other issues that are in disagreement on these Laws.
- With Peter and Amila, met with Federation Minister of Energy Zigic and his advisors Zametica and Sadanovic. Peter started the meeting by saying that USAID had discussed with Hays of OHR the letter from the Special Auditors to GD Kreso, and Hays agreed that the position taken by the SA is unreasonable,

and that they had overstepped their mandate. Zigic reported that he had had a meeting in Mostar with Maric for general discussions and that he plans a meeting on 22 October with both EP GDs to discuss the Action Plans. The revised plans have not been sent to the EPs yet because the MoE has not finished with the modifications that were requested by the Parliament. He will give them to the EPs next week. [The result of this delay is that until they get completed and sent back to Parliament, they cannot be officially published to become official. Of course, this plays into the hands of EP HZHB, who aren't required to do anything until the AP is official.]

Zigic plans to submit the Mines Action Plan to Parliament even though he has no requirement to do so, because 40 to 50% of the miners will be out of work within a few years. He has lobbied hard in recent days and doesn't expect problems with the mines in Tuzla and Kakanj, but there could be problems with the mines in Zenica and Breza. He is very unhappy that the World Bank isn't willing to offer assistance here – the mines need more help than the EPs. He will have the Mine Restructuring Plan ready for our use next week.

The Management Board for EP HZHB has been approved. The Board for EP BiH has not been finalized yet because some more changes have to be made.

The Special Auditor has requested that coal purchases by EP BiH must be done by open tender. However, most of the coalmines are monopoly suppliers to particular TPP units, and a tendering process is not appropriate. The MoE has fixed a coal price at 5 KM/Gj as a regulated price for the monopoly. Any attempt to tender in this situation would result in higher prices because of the monopoly of supply.

- With Amila, met with GD Dakic of EP RS in the PA office. We discussed and agreed to the agenda for the meeting to be held between USAID, the PM, MoE and him on 21 October. We then discussed the upcoming meeting at MOFTER to discuss the Laws, and in particular the cutoff point between the Transco and the gencos. I told him about the one year of disagreement and controversy that had been primarily caused by the EP RS, and asked him if there was any way we could resolve this today. He said that he would discuss it with his Ministry and see if they could come to an agreement with the other two EPs.
- With Peter, Amila, and the IC, met with Minister Doko of MOFTER along with the FMoE Minister Zigic, Deputy RS MoE Milovanovic, the three EP GDs and their advisors for a final discussion of the Laws. The discussions that occurred are summarized as follows:

Zigic said that the FMoE has not been involved in the WGs but that he supports the Laws as they stand and thinks they should be passed soon. He made a special request that MOFTER create and Energy Department to become involved in this work.

Milovanovic said that the RS MoE has approved the Laws with the exception of the disagreement on the cutoff points.

Kreso said that the comments of EP BiH are only suggestions intended to improve the Laws, and were not requirements, and he agreed that the Laws should be passed soon.

Maric said that the 110 KV/X should belong to the discos (although he has no such conditions in EP HZHB, this supports the ED Krajina position – do we detect a conspiracy here?). He also said that a requirement was that there be regional operational centers at each of the EPs [so that operations can continue in the usual manner, thus bypassing the ISO].

Dakic said that EP RS fully supports these Laws and their quick passage, and he thinks that this meeting can resolve all issues. He asked Cokorilo to discuss the technical points. Cokorilo said that it is unfortunate that the cutoff point specified in the Transco Law is not as convenient as the "fence" principle that is used for the discos, and that it would be easier to manage the system with the fence principle. [Of course, this was the major break-through because it has been EP RS who has objected to the fence principle for the past year. This is because the Technical WG has been "led" by Mijatovic who was instructed by the previous management to create the disagreement, and he never backed away from this position with the new management.]

Hadzic said that there were still some sticky points in the ISO Law that deal with the interface with the Transco, but they could be worked out. His only concern is the delay in getting the ISO Law passed that has already put them behind the schedule of the Regional work as stated in the Athens MoU. BiH cannot fully participate in this without these legal bases.

Jane reported that since there has been no agreement on the TWG, the Transco Law was written using International Best Practice, but with the flexibility for correction of any unacceptable cases.

My comment was that either of the two cutoff points that are under discussion is appropriate and both are used in different countries and within the same country. The important thing is that an agreement be reached for BiH that is consistent countrywide.

Kreso proposed that the EPs agree today to use the fence principle. The other two EP GDs agreed. There was rejoicing all around.

Zametica brought up the position of the FMoE that the ISO should be State-owned. Milovanovic repeated the RS position that the two Laws should be treated as a single package, and be Entity owned. Doko said that the ISO has no significant assets, and he thought it should be State owned. Flynn said that State ownership would be best, but that we should proceed with the Laws as they are written with Entity ownership because we don't want further delay, and then reconsider the change at a later date.

Doko agreed with this and said that he would proceed with the Laws to the CoM as written.

With Amila, met with Don Hays, Lejla and GD Maric of EP RS in a meeting arranged by Hays. I was invited to attend and Lejla told me the meeting was for Don to "kick some a@@". Hays said that OHR's goal with the Special Auditors is to strengthen corporate governance, and to assist in defining what that means. The EP Board of Directors, Internal Audit and the Minister of Energy should be the GD's superiors, and if he feels political pressure, then he (Hays) will help him. Hays said that he is concerned that the Federation Government passes decisions that are not followed by the EPs. If these decisions are not Gazetted, then the EPs think that they don't have to follow them. The EPs should understand that they have to answer to citizens, customers and the MoE, the last of which represents the owners. He said that OHR is developing a law on governance that will be given to the government in November.

In considering investments, the EP should assure that they are rational for the EP. Other investments that best serve other constituencies should be made by Governments. EP investments should be for core business only. If there is a profit from investments, as well as from any operations of the EPs, it should go to the MoE, representing the owner. Then legislation would be developed to transfer this profit to the budget. This process must be totally transparent so that money is not taken by political parties. Public enterprises should serve the public. Donations are not banned, but they must come out of profits, and they should be approved by the EP Management Board, not by the Federation Government. Projects like Mostarsko Blato must have cost-benefit analyses performed to show that they benefit the customers and the owners of the EP. The main concern of the GDs of the EPs is profit. All projects also need an Environmental Impact Study performed before they are approved. These projects need a public/private partnership, and the EP cannot be expected to pay for benefits to the non-customers. He said that he told President Covic last week that the funding should come from those who will receive the benefits in proportion to the benefits received. If any of these projects don't show a positive value over 25 years, then OHR has advised the Government not to proceed with them. Mr. Covic said that such funding might be available from Croatia. [!!]

Hays said that USAID had been pressing hard for privatization, but that after the Special Auditor uncovered the bad performance of the EPs, the IC decided to restructure first and then privatize. The first step should be to pass the Transco and ISO Laws, and then to unbundled the gencos and discos and proceed with privatization of the gencos and discos.

Maric said that the Special Auditor has helped them to understand the problem with donations and that they have stopped all donations. The new EP business Plan includes no donations. As a result the Croat community has accused the EP of being against Croats. Until November they had paid the city of Mostar and the surrounding communities donations for towns that have accumulation lakes. These towns have requested that this payment be increased by a factor of four. In April a new decree was issued that payments should be made until April 2004. They stopped paying and still owe six months of payments. Hays said that he had committed these payments as part of his deal with Mostar, and asked if the EP could make these payments. Maric said that he has about half of the money now. Hays said that he would try to work out a solution with Maric because his

hope is that a combined Mostar will be able to fund itself, and that's why the money stops in April.

Maric then wanted to discuss his problems with the Action Plan, but Hays had to leave and requested that he have this discussion with Lejla and me. Just before he left, Hays said that Maric is doing a very good job, and that he should continue to do what he has been doing. If he has any problems, just give him (Hays) a call directly. Don't write a letter but just call him on the phone.

In the follow-on meeting with Lejla and me, Maric made all of his usual arguments, and also added that Minister Zigic told them in Mostar last week that privatization would not occur. [!!!] He added a new twist to his nonsense by stating that combining the HPPs on the Neretva River will not increase their efficiency because all of the flows are regulated anyway. This of course is not the case, and it brings the discussion to the usual level of dealing with non-truths, etc. After another hour, when we got kicked out of the office, Lejla suggested that we continue this discussion at another time. My response to her after the meeting was: (1) Don really did kick some; and (2) it was pointless to continue this discussion at a later time unless someone was going to do what she had thought Don was going to do, but did not.

- With Peter, met with Alain Godeau and Faruk of SEETEC to discuss the work that needs to be done to form the new Transco and ISO, to determine what funding needs to be made available and by whom. We started to review the chart that we had previously made and to which SEETEC has supplemented. We didn't complete the review as Alain had another meeting. One of the conclusions that SEETEC has reached is that the legal costs that were proposed by Pierce Atwood are too high and should be reexamined. Alain also reported that the EU is paying salaries for regulators in Serbia, and why not here?
- In meeting with Emir Aganovic, he explained the problem that the EP is having with the provisions of the new OHR mandated Statut that requires a Procurement Board. The idea is not bad in that there need to be checks and balances on procurement, but the details spelled out in the Statut are much too detailed for a Statut and should be in the Rules and Procedures. Last year the EP had 700 tenders of more than 20,000 KM, and the rules given in the Statut are not practically implementable. Another problem with the new Statut is that it strengthens the centralization of the EP at a time that we are restructuring to decentralize it. One of the ways this is hurting is in the attempt to spin-off the noncore businesses. Fortunately, we will have a chance to change this when the EP is registered as a JSC next year. We also discussed the problem of trying to tender for coal for the TPPs. It is not reasonable to try to do this because most of the mines are monopoly suppliers, and those that aren't are higher cost. That is why the MoE has made a decree to set the price at 4 KM/Gj.
- With Amila, met with D. Andelic in PA office. He was concerned with some of the
 ongoing discussions with the Special Auditors and wanted to explain his position.
 I asked him who would replace Cokorilo as the Management Board member of
 ZEKC from EP RS now that Cokorilo has become a Regulatory Commissioner.
 He said that it would probably be Dakic. I requested that he consider taking that
 job because we need somebody on the Board of ZEKC that has a strong

technical background, understands markets and is strong enough personally to stand-up to the strong Transco people who are trying to diminish the role of the ISO. He agreed that he would if he were requested by his management. He also complained about the new Statut that has been mandated by OHR, saying that Dakic has said that he plans to reduce the HQ staff of the EP by half, but the new Statut will require him to hire more staff.

With Merritt and Amila, met in Doboj with Mikerovic, Bogecevic and Dakic for a day's meeting to discuss some of the problems in the EP and in the Government support of the EP. Dakic began by giving an operations report of the EP under his tenure. Results were generally positive, and he gave explanations where they were not. The largest problem area is Gacko, where short and long-term liabilities are about 100 million KM. He has been having meeting with the construction companies to whom Gacko owes money to request that interest on the debt be written off, and has gotten agreement on a reduction of 15 million KM of interest as well as 5 million in other liabilities for a total of 20 million KM. A big problem with the Gacko creditors is that many of the bills that are presented are unsubstantiated and our-of-date, but when they take them to court, the local judge approves all of them and the Gacko lawyers don't contest them. He said there are 21 lawyers at Gacko, few of which have passed the bar and only one of them is qualified to represent the company in court. The victim of the recent killing at Gacko was the best lawyer they had. With this problem with incompetent lawyers, he cannot fire them. He requested that PM Mikerovic meet with the municipality of Gacko to discuss cleaning up the legal system with the leaders of the town.

Mikerovic said that he understands this problem, and he agreed that the EP as well as the Government has made some progress, but that there are still problem areas in both. He said that the largest lobby against reform and attack on public property is that of the judges and lawyers. The RS does not pay its public prosecutors enough to enable them to hire competent people. He said that it would probably take five years to get rid of the 21 lawyers. He thinks the 100 million KM of debt of Gacko needs to be examined further. He said that the best solution for the TPP, the muni and the EP and its employees will be for Gacko to declare bankruptcy. Bogegevic said that the debt needs to be reduced, and that we should concentrate on this during the remainder of this year, and if no progress is made, then declare bankruptcy. My comment at this point was that bankruptcy should be considered only as a last resort because under bankruptcy the court will appoint management of the company and that would probably be worse that the present situation.

The over-staffing problem needs to be addressed, but it is difficult since the TPP is the town. Dakic said that he has a plan for Gacko that will resolve the financial problems in 18 months and will not require bankruptcy. Mikerevic proposed that we review this plan and also look at the generation costs as well. He also requests that the IC look into the creation of jobs in Herzegovina that could employ people who were made redundant. Merritt suggested that the RP and the Government develop a Social Safety Program for workers that are laid off, and that the funds for this come from the collection of EP debt of over 200 million KM. He said that we would work with the EP and the Government to develop

such a plan. We will have a plan to present to the Management Board by the end of November who will then present it to the Government.

Dakic said that there is a big problem with the coal mines in both thermal plants, and that they want to put out a tender for mining the coal so that they would be assures of the lowest price. My comment was that with all of the miners that are on staff, there is no reason to tender for any services. They have had problems with accountability of coal in the past, and that should be addressed by a scale and better accounting procedures. All mining operations should be done inhouse so that there will be no contractors. The price of coal should be regulated because the mine is a monopoly provider and there can be no competition. We have just gone through this discussion in the Federation where the SA recommended that coal be tendered. Since it is a monopoly there as well, even though the mines are separated from the TPPS, the price is regulated by the MoE.

Dakic said that he wants to hire some two dozen managers in all of the daughter companies, but the MoE has put a hold on tendering for these jobs. Bogecevic responded that Gacko has a new GM and he should be given a chance. Also, they are reducing the discos from five to three, so we should wait under after that is completed. He said that the majority of the Directors of the Business Units of the discos (at the muni level) should also be replaced because they have been at their jobs for 12 years and are stagnated.

I requested that Dakic replace Cokorilo as ZEKC Board Member with Andelic, and he agreed.

In the discussion of the Fatnicko Tunnel Project, Merritt said that a sturdy of the water flow problem between the twp Entities should be made and corrections should be undertaken to correct any problems. I commented that the project is nearly completed, and it is a little late for an economic evaluation, but that it should be known that the EP has undertaken a liability of 70 million KM for this project.

In discussing Buk Bjilea, Dakic said that 8 firms had purchased tender documents for a 30 year concession, and that they had two bids, with a third bidder who is requesting a delay of the 27 October deadline so that it can finish its bid. Both Dakic and Mikerevic said that the concessionaire will receive no guarantees from the Government and that there will be no liabilities to the EP, but that the EP will receive a payment of 1 pf/KWh. When I said that that did not seem possible, and that the Concession Agreement should be studied very carefully to make sure there is no liability to the EP, he offered to let us see the tender documents including the draft Concession Agreement.

• Met with Dale Ralph and her Audit Team to describe the restructuring that is being undertaken and the market that we are anticipating. At the same time, they provided me with some details of the debt problems at Gacko and the fake and unsubstantiated invoices that are being presented and approved by the courts without adequate representation by Gacko lawyers. The latest invoices that they have seen are from the HPPs that are claiming 100 million KM from the two TPPs for subsidizing them in the past.

With Amila, met in Trebinje with Radovic, EP lawyer and Andelic. The meeting with Radovic was to discuss the RS Bankruptcy Law (BL) and how it would affect Gacko. In the RS, daughter companies that are legal entities, such as the daughter companies of EP RS, can be sued for bankruptcy independent of their mother companies. This is because the mother company, EP RS, is not responsible for the liabilities of the daughter company, Gacko. There are two types of bankruptcy, one where the company continues to operate under a reorganization plan, and the other where the company ceases to be an ongoing company and the assets are disposed of to pay the creditors. Under bankruptcy, none of the old debt is forgiven; it may be rescheduled, but must be paid.

A new Amendment has been added to the BL in May 2003 that allows a creditor who has court approval of its debt to force bankruptcy if it is not paid in 60 days, and this can happen without the approval of the Government. Then, a local Bankruptcy Judge appoints a Bankruptcy Board (called an Assembly) that can decide whether to reorganize this company as an ongoing concern or to force its sale to its creditors, or to a single creditor who has made arrangements with the other creditors, or they could decide to transfer ownership to another company. [This is the same method in which EFT acquired Hidrogradnja.] This is the realization of the worst of our fears in the way these assets could be privatized to undesirable entities for a fraction of their value. We should: (1) not permit the EP or the RS Government to allow Gacko to got into bankruptcy; and (2) work with the RS Government to get the BL changed as soon as possible. A further complication for Gacko is that it is partially owned by HEP, and so HEP could ask for a division of assets and take their one third.

In our meeting with Andelic, he said that Dakic has already made his appointment as the Board Member for ZEKC. He has just joined a commission that is looking into having Albania join UTCE, and that will involve him for a couple of weeks, and after that he will be involved primarily with water issues, and will have me join their inter EP WG to work on resolution of some of the problems. He will send an agenda for that and some review material and will propose the next meeting at which he will bring some of his water experts.

With regard to Buk Bijela, there is a meeting of the Tender Commission on Monday to decide whether to extend the due date beyond Monday, the scheduled closing. Bogecevic is President of this Commission, Dakic Deputy and Milovanovic Secretary. I reviewed my analysis of the economics of the project and asked him if the EP had done any similar analysis. He was not aware of any, and said that he would discuss this with the GD next week (we had hoped to meet with him today, but he was unavailable). This may be reason enough to postpone the closing of the tender.

- Attended the Donor Meeting at the Canadian Embassy at which attendance was Peter, Elma (for Jane), Paprosky, Faruk, Priestley, Rwjeda, and Lejla. Discussion was as follows:
 - Paprosky He has discussed with the EC in Sarajevo about taking a larger leadership role in Bosnia; they are considering but they have budget problems like everyone else.

- Lejla The two Laws are with MOFTER and waiting for Minister to sign and send them to COM today. They did not go out for another review.
 She reported that in Sofia there was emphasis on the Regional Market and the importance of BiH in implementing reforms and passing these Laws.
- Priestley The EC should send a letter to Minister Doko and the COM in support of the passage of these Laws. He said that the EC has been requested to provide the IM plus some of the legal costs of forming the Transco and the ISO. He said that Jane said that one IM could serve both companies. [??] He said that he received an e-mail from Iftikhar saying that the RS NA had not agreed on the RS Commission appointments because the House of Peoples had objected. Lejla said that this was not true, and that there is no problem.
- Paprosky There was a lot of discussion of the political problems that we are facing in our efforts to reform, among them the problems with the HDZ in EP HZHB. Priestley stated that Jane had stated to him that we must be prepared to reach a compromise with EP HZHB in order to move forward. My comment was that compromising with EP HZHB is moving backwards, and that is not what we want to do. Paprosky, being the new person in town, requested that someone prepare a detailed table indicating all of the political background and sensitivities to the reforms, and since I am in the middle of most of these, asked if I would take on this task. I declined.
- Rwjeda KEMA has only completed one of 6 Tasks, and DFID won't permit them to continue until the Laws are passed and interim funding is approved, and since laws take anywhere from three to 20 months to pass, DFID is not confident about ever having KEMA return. DFID's fiscal year ends March 31 and if they don't have KEMA back to work by then, the budgeted money for their work will probably disappear because money is being diverted from many countries to Iraq. DFID is also very discouraged by what is going on in ZEKC because the Board won't approve any documents because they are waiting until SERC approves them, so nothing gets approved. If at the end of March, we haven't met their deadlines, we may not have any TA for ZEKC.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- Hays has told GD Maric of EP HZHB that he has his full support in all that he is doing, and there is no one stepping up to oppose his opposition to reform
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP

- The tenders for billing and collections software of EP RS and EP HZHB are not being coordinated towards obtaining a single system in the country
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bilece
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Gacko now, because there is consideration in the RS Government to letting the company go into bankruptcy.
- The new Statuts for the EPs that were written and mandated by OHR work against reform because they force the EPs to be more centralized, which makes it more difficult to unbundle the EPs.

Deliverables

Harmonized Action Plans with the new dates for the Federation and the RS

USAID MOBIS CONTRACT No. GS-10F-0014K INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR MONTHLY STATUS REPORT – NOVEMBER 2003 PA GOVERNMENT SERVICES, INC.

Activities

- With Amila, attended the Roundtable sponsored by OHR to review the drafts of the proposed Laws on Public Enterprises for both Entities. In attendance were the EPs, the Entities Ministries of Energy, and many academics from both Entities. As with all such roundtables, it was a chance for many who don't usually participate in the legal process to give their views on many things, some of which pertained to the subject at hand. The single biggest issue was the misunderstanding of a Public Enterprise. Most of the academics and even some of the Government attendees viewed a Public Enterprise as one who performed a public service instead of one that is owned by the public through the Government. After four hours of debate on this issue, some still did not understand.
- After the meeting above, met with E. Kreso, GD of EP BiH, who was in attendance. I told him of our proposal to work with OHR to modify the new Statut that has been imposed by OHR on the EPs because of the problems it is causing. He agreed, and told us to work with Aganovic and Milosevic on the revision. I also spoke to him about the problem that Minister Zigic had mentioned to us about being instructed by the SA to tender for coal for the TPPs. He agreed that it is not appropriate to tender for a monopoly supplier, and that the price of coal for the TPPs is regulated by the MoE (later by the Regulator) as it should be. He said that Ugljevic has recently offered to sell a small amount of coal to the Federation TPPS (only 5% of their needs), and this could be tendered. The final solution to this problem that is planned is for the coalmines to be owned by the TPPs.
- With Amila, met Minister Zigic and his advisors, Zametica and Sadanovic. It has been decided that the Action Plans for electricity and coal can be finally approved by the Government and can be Gazetted. Zigic plans to meet with the two Federation EPs to discuss and requested that USAID and us to be there. Zigic reported that Iftikhar has said that the WB has withdrawn all objections and that the loan is moving ahead.

In a report from Sofia, Zigic reported that the Athens MoU stated that the energy sectors must reform and restructure to meet the EU requirements, and that this will be turned into a treaty in April or May. He State Regulator must include gas and the three regulators in BiH must collapse into a single regulator. Since there is no State MoE, The FMoE has been performing studies on electricity, gas and all other energy matters. The WB is planning to finance the development of a

State energy policy, and the FMoE has been requested to develop the TOR for this study.

Zigic said that the RS is continuing with the work on the Fatnicko Tunnel, and that no resolution has been made to the controversy over water. This needs to me resolved quickly.

Zigic again complained about the interference from the Special Auditors in the performance of his job as the Government's representative as the shareholder of the EPs.

- With Amila, met with OHR lawyers Mrkovic and Kukansen about modifying the Statuts that have recently been imposed on the EPs. They expressed their willingness to work with the EPs on solving the operational problems that the new Statuts have caused.
- With Amila and Merritt, met with GD Dakic of EP RS and T. Dabovic, the new Deputy for technical matters at EP RS (Andelic's replacement). Dakic said that there is a meeting planned with the MoE to discuss the Gacko Reorganization Plan, but that to date there has been no follow-up to the Doboj meeting, and Mikerevic has not visited Gacko or Trebinje. It was decided to present the plan to the MoE and then schedule another "Doboj" meeting to discuss further.

Dakic had a meeting with the Special Auditors to try to resolve some of their differences. Much of this discussion was about Gacko debt and other debt. He said that he has discovered that some of the information that the SA had presented was in error, and that they should be more careful about obtaining accurate information. He reported that the losses at Gacko had gone from 39 million KM last year to 3.5 million year-to-date and that Gacko should be operating with positive results by the end of this year.

Dakic wants to get approval at the next Management Board meeting to release the GDs of all of the EP daughter companies and to tender for replacements. If some of the incumbents are good and re-bid for their jobs, then they may be the best qualified. He invited us to attend the next Board meeting in Bijeljina, and since Bogecivic will be there, we can hold a side meeting with him.

EP RS has two big projects coming up and he asked for our review of them. They are the sale and exchange of electricity to meet the planned energy balance for 2004. We agreed to work with Mr. Dabovic on this. Dakic gave us a Bidders Document for the Buk Bijela Concession that he had asked us earlier to review.

With Amila and Merritt, met with Minister Zigic and his two advisors, Zametica and Sadanovic, prior to the meeting with the two EPs to discuss the Action Plan. Zigic had another letter from the SA to him regarding his relationship to the Management Boards of the EPs. Merritt told him that the SA should not be interfering with his management of the EPs as the Government's representative as shareholder of the EPs. He said that OHR has made it very clear that they won't interfere with Management Board appointments. They will offer their

opinion if there is a recommended applicant that appears to have an inappropriate background, but the decision is for the Government to make.

• In the meeting with the EPs at the MoE, Aganovic and Milocevic represented EP BiH and Maric, Boras, Bula and Golc represented EP HZHB. Zigic said that the Action Plan has been approved by Parliament and the dates have been harmonized, and that is shortly will be Gazatted. Maric complained that this is the first meeting that the MoE has held to discuss this AP with both of the EPs. He said that the AP is not implementable as proposed because the time line is too short. He also gave his usual list of reasons why the AP should not be implemented.

Zigic responded that this is not the AP of the EPs, but of the Government. All of your comments have to be delivered to the Government and the Parliament, because they have been considered in the passage of this AP. The primary difference between the two Entity APs is due to the differences in the two Entities. The APs have been harmonized as much as is possible. These APs deal with restructuring and privatization will be considered in Phase II. The AP is now a legal act, and we should be discussing how to implement it.

Aganovic said that EP BiH welcomes the new time schedule and is glad that unbundling occurs at the end of the first year. EP BiH believes that this schedule is a reasonable one. Having the unbundling during the first year means that we will have time to see how we have done, and have time to correct any problems prior to corporatization. He said that he is happy to see that a Social Safety Program has been added to the AP.

Boros continued to object to the AP and the schedule. Zigic said that the AP is a fact – it has been passed. It is the Government's view as to how restructuring should be done. We will work our any problems as we move forward, but only if everyone makes the best efforts to meet the plan. The Government must work our a plan for redundancies. For the first time, the Federation is working together to implement such a program, and he said we can plan monthly meetings to discuss implementing this Plan, but they will be on a technical level and he will not discuss political items or the basic framework.

Zigic said that we need people from the MoE and the EPs to work on a Steering Committee. He will write a letter to the EPs stating the requirements and requesting nominees for the SC. He said that there should be monthly meetings the first week of each month.

Merritt said that the schedule for the AP is based on everyone using good faith best efforts. If some don't use good faith and best efforts, the schedule will never be met. He said that USAID and the rest of the IC supports the Minister of Energy in directing this effort.

Met with Emir Aganovic and Mirsad Sabanovic of EP BiH to discuss the BiH
market and the draft Market Rules that SEETEC has issued prior to their meeting
in Sarajevo. They both have reviewed the draft Market Rules and said that this is
not appropriate for BiH now, and that we should stick to implementing the
bilateral contract market that was recommended in the PA Study.

We also discussed the negotiations that are ongoing between the Government and Debis for the supply of electricity to the aluminum company in Mostar. EP BiH is very unhappy at the special low price that Debis is trying to achieve because it is way below market level. Since no decision has been made on the Debis request, the EP has tendered for the sale of the 125 MW that they have been supplying to Debis for the aluminum company (along with 75 MW from EP HZHB). They said that they expect the bids to come in at 36 to 37 euros/MWh (compared with less than 27 euros/MWh offered by Debis).

- With Amila, attended a workshop on the EU CARDS project put on by PWC and Cameron McKenna, who are negotiating with the EC for a contract to evaluate the regional market in SEE. They had invited leading technical people from the EPs and from ZEKC and the workshop consisted of asking the participant what is the situation in BiH so they could get educated to begin their study. It was a terrible meeting and a waste of about 25 top people from the industry to give an introductory session to people who had never been here or had any idea of how the electricity sector in BiH operates. It was very poorly coordinated (if at all) by the local EU office.
- With Peter and Jane, attended the monthly donors meeting at the Canadian Embassy. Andre Lys of the EC was there and he responded to the request to have the EU take a greater leadership role in the reform process and in lobbying to get the two laws passed. He said that they can send some people in to assist in lobbying, but that they don't have much money in the budget, and now new budget money can be expected before 2005 because of the budget cycle in the EC. He said that they do have 1 million euros to support the IMs, but that is all.
- With Amila, met with Andelic of EP RS. He said that the tender for Buk Bijela
 has been extended until 30 April because the third bidder was not ready. He
 said that the Concession Documents and the Contract for the Buk Bijela
 Concession were written by Energoproject from Belgrade. He said that Minister
 Bogecivic was told by Ambassador Bond that the tender would not be a problem
 because U.S. companies would bid on the Concession.

Andelic also confirmed that when the connections are completed as part of the Power III project, that the entire BiH will operate as part of UCTE I along with Croatia and Slovenia, and will not be a member of EKC.

- Met with the SEETEC Market Rules team headed by Stephan Barbeau prior to the meeting at ZEKC with ZEKC management and the EP Market Facilitation Group. Barbeau and his colleagues gave a presentation (in English) on the draft Market Rules that they had previously sent (in English). The attendees, led by the dispatch people from EP BiH, told SEETEC that this was not what BiH needed now. The market presented by SEETEC was much too complicated and the detailed report that was presented does not meet the requirements of BiH now or in the foreseeable future. They said that the WG will prepare written comments on this draft and send them to SEETEC.
- With Jane, met with Helene Ryding of the EC. She said that one way the EC has
 of offering assistance in developing countries is to twin legislative bodies with
 their counterparts in the EU. She told us that BiH will chair the Athens MoU

group starting next year. Reuf will chair the High Level Committee and the Forum and that Doko will chair the Ministerial Committee.

- Met with CIDA Auditors, Latraverse and Goyette. Reported that in general, SEETEC had good technical people, but not enough budget to achieve the scope of work that they undertook. This was especially evident when they provide no translation or interpretation for any of their meetings or reports. With everything communicated in English, much doesn't get communicated at all. Another problem caused by budget limits is that the advisors are not in country enough to work with the counterparts on a regular basis. Some, like the Transco advisors under Peter Czech, handled this better than others, possibly due to greater budget, while others, such as the Market Rules team, do all of their work without adequate input from the local technical people. Without their input, the product that is produced has little value to the people here.
- With Amila, met in Trebinje with Andelic, Dabovic, Golab and Tesarovic of EP RS. We discussed the two areas of water problems they are having with HEP on Dubrovnik and with EP HZHB on Capljina. No progress has been made on either of these areas during the past two months. I agreed that I would approach Minister Doko to see about reactivating the negotiations with Croatia. We need to have a meeting with EP HZHB to discuss the offer made by EP RS on the resolution of water for Capljina, and Maric will be contracted to arrange this meeting.

We discussed the tender that is in preparation for the exchange of electricity into UCTE Zone I to meet the needs of the Banja Luka region. They are also preparing a tender for the sale of power from Zone II base on their energy balance plan for 2004. The EP has decided that it is their best interests to tender for contracts of a few months instead of one year as they have in the past. They told me that there was some pressure coming from Banja Luka to continue to use one-year contracts. Dabovic, the Deputy to the GD for Technical, who is arranging for these tenders with his Procurement Board, has said that he is using the tender documents that EP BiH used because they are better than the ones that EP RS used in the past. He requested that I review the documents and the bids that they receive. They are hopeful that they receive more than one bid, but are concerned that they may not.

Issues

- The attempt of EP HZHB to reject any changes from the present situation of a separate vertically integrated utility that is the result of a continuing influence of the HDZ on the EP.
- The technical representatives from EP RS (Mijatovic) and EP HZHB (Lasic) continue to object to the single control center for the SCADA. This has meant that the discussion is back to the Technical WG to resolve.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP

- Evaluation of the Buk Bijela Concession Documents confirm that this is a very bad deal for EP RS and the RS Government
- The tenders for billing and collections software of EP RS and EP HZHB are not being coordinated towards obtaining a single system in the country
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bilece
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Gacko now, because there is consideration in the RS Government to letting the company go into bankruptcy.
- The new Statuts for the EPs that were written and mandated by OHR work against reform because they force the EPs to be more centralized, which makes it more difficult to unbundle the EPs.

Deliverables

Report on the evaluation of the Buk Bijela Concession Documents

USAID MOBIS CONTRACT No. GS-10F-0014K INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR MONTHLY STATUS REPORT – DECEMBER 2003 PA GOVERNMENT SERVICES, INC.

Activities

With Amila and Edin Zametica, met with the Assistant Minister for Mining of the Ministry of Energy, Mining and Industry, Mr. Sokolovic and two of his colleagues, to discuss the status of the Action Plan for Restructuring the Coal Mines. In May Minister Zigic created a working group to study the restructuring of the coalmines that consisted of representatives of all of the coalmines and Sokolovic was Secretary of this WG. They have produced a report that, when it is approved by the MoE, will be sent to all of the coalmines for their comments and then back to the MoE for final approval. Then it will go to the Government and finally to the Parliament.

He said that 80% of the coal from the Federation mines goes to the TPPs, and thus 80% of the mines' revenues come from EP BiH. The future of the coalmines is tied to the future of the TPPs, and so the price of coal must always be low enough so that the TPPs are competitive. Some tough decisions must be made about the coalmines that are not competitive and those that supply other customers than the EP. Only those mines that can afford to supply the TPPs at competitive rates should be privatized with the TPPs. The other mines should be privatized by themselves, be rehabilitated or be shut down.

The Coalmine restructuring in being done in two phases. Phase 1 is through 2007 and Phase 2 is beyond 2007. The Action Plan that they are working on now is for Phase 1 only. Their objective is to make all coal mines efficient so that they can either be privatized with the TPPs or be privatized separately. The investment costs for rehabilitating the inefficient mines as estimated by the mines is much higher than those estimated by either Marsdon or DMT, and the lack of investment is a major problem for rehabilitation. They have no answer for where the investment will come from to make the inefficient mines more cost effective.

• Me with Aganovic and Milosevic of EP BiH to discuss the situation with the supply of electricity to Aluminij. EP BiH has been supplying electricity to Aluminij (through Debis) at 27 euro/MWh, a discount that amounts to 1.5 KM/GJ (2.5 KM/GJ compared to the price for their domestic customers of 4.0 KM/GJ). The EP has been taking one third of this discount and the mines two thirds. The bids that they received from their tender for the sale of the electricity that they have been supplying Debis varied from 27.1 to 36.1 euro/MWh. They cannot supply to Debis at the rates Debis requests when these are the market rates.

- With Amila, Jane and Elma, attended a meeting at ZEKC called by MOFTER to discuss the design of the SCADA, along with Hadzibegic, EBRD and the Transco Technical WG. After much arguing and posturing by Mijatovic, it was finally agreed that all control of the System will be performed by the ISO. Mijatovic argued that there should be parallel data gathering so that the regional centers would also have all of the data, but this was not accepted because then the regional centers would no longer be just transmission centers, but also control centers, and it has been agreed that there will only be a single control center.
- With Amila, met at OHR with members of the IC and OHR staff to discuss the supply of electricity to Aluminij. OHR did not understand the history of the supply to Aluminij, not the basics of the market in the Federation. They were insisting that the supply to Aluminij must be kept at a low rate so that Aluminij's business situation not be impaired.
- Met with Aganovic to discuss the meeting that Hays called with the Federation Government and the two EPs to discuss the supply of electricity to Aluminij.
 There were two items that he concentrated on: the legal basis of the cancellation of the EP BiH supply contract to Debis; and the economics of the situation. Emir gave them a complete accounting of the economics of their situation, including all costs of production, historic supply to Debis and the costs of coal.
- With Amila met with GD Dakic of EP RS to discuss some of the problems that the EP is having in its restructuring. He has supported the formation of a water expert group to discuss the water problems with Capljina and Dubrovnik. He mentioned that there is a problem with Ugljevic 2 because it is a non-company but the Privatization Agency has assigned vouchers to it. We will discuss with Radovic in detail. I told him of our concerns with the tender documents for Buk Bijela and he said that he would look into it.
- With Merritt and Amila, met at EP HZHB with GD Maric and his staff. They gave a very sketchy report on the restructuring that they have accomplished, which did not address most of the issues in the Action Plan. They made the usual complaints about Capljina not being able to operate profitably. They also claimed that they were losing money on the large customer transactions because ElectroBosna does not pay regularly. They also made the same requests that the Action Plan should be changed so that their EP would restructure within the existing company until privatization.
- With Amila, met at USAID with Merritt, Peter and representatives from Brcko,
 Jovanovic and Sinsic. Merritt told them that Brcko should pass its own electricity
 law, and this will determine how to set tariffs. He said that the future of the
 distribution company is in the hands of the people of Brcko. They said that they
 are planning to separate the disco from the municipality and to create a separate
 public utility company during 2004.
- With Amila, met with Andelic and Dabovic of EP RS. The EP is planning to issue tenders for the sale and exchange of electricity, and they are waiting for approval from the MoE. They need a response because they have excess in January for sale. Their TPPs are so unreliable that they need back-up power when they go off-line. HEP has offered peak power at 70 euro/MWh. If there are no TPP

outages in January, they can clear all of their outstanding liabilities with EFT except for the seven-year commitment based on Fatnicko Tunnel that lasts through 2009.

- In the IC Donors Meeting, it was announced that Sweden and Norway have decided to provide no more money for energy. Spain has committed 100,000 euro over the next three years. The World Bank has signed the first 25 million euro contract for Power III. Energoinvest got the contract. The next WB contract is for 5 million euro for the Rama HPP.
- With Merritt and Amila, met in Banja Luka at the MoE with Bogecevic and Milovanovic. Milovanovic reported that the RS Steering Committee on Restructuring has met five times and he will send us the minutes. He said that the union had requested a meeting to discuss the SCADA design, and that they were concerned that the recommended design will weaken the EP RS. We responded that this is a technical issue, and not for discussion with the union. On the issue of Ugljevik 2, he said that all of the listed assets no longer exist, and that the EP is arguing that U-2 is not part of the EP. Though Slovenia has a one-third interest in U-2, it is making no claims, as it is for U-1.
- With Amila, met with Doko and Hadzibegic of MOFTER to discuss the
 international controversy between EP RS and HEP over the use of the electricity
 from the Dubrovnik HPP. Nothing seems to be happening on this subject, and I
 wanted to try to get Minister Doko to take some action. All action had been
 under the leadership of Hadzebegic in the past, which goes a long way to
 explaining why nothing has happened.

Issues

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Deliverables

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